

DAILY BULLETIN

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IRAQ IS TEST OF U.S. COMMITMENT TO ADVANCE FREEDOM, BUSH SAYS

Pledges \$350 million to support Palestinian political, economic, security reforms

President Bush delivered his annual State of the Union address February 2, saying the January 30 elections for Iraq's national assembly "opens a new phase" of U.S. involvement in the country as the United States increasingly focuses its efforts toward training and preparing Iraq's security forces.

"[W]e will increasingly focus our efforts on helping prepare more capable Iraqi security forces - forces with skilled officers, and an effective command structure," Bush said in his address to members of Congress, his cabinet, and the American people.

He said U.S. and coalition forces will more and more play a "supporting role" as Iraqi forces become more self-reliant and assume greater security responsibilities. However, the president said he would not set a timetable for withdrawing U.S. forces from the country "because that would embolden the terrorists and make them believe they can wait us out."

"We are in Iraq to achieve a result: A country that is democratic, representative of all its people, at peace with its neighbors, and able to defend itself," Bush said.

He said his administration's commitment to advancing global freedom, particularly in the Middle East, "is now being tested and honored in Iraq."

The president said he expected success because, by voting in elections, the Iraqi people showed the world that they “value their own liberty.”

“In any nation, casting your vote is an act of civic responsibility; for millions of Iraqis, it was also an act of personal courage, and they have earned the respect of us all,” he said, and paid special tribute to Iraqi democracy and human rights advocate Safia Taleb al-Suhail, who attended the speech as the guest of First Lady Laura Bush.

The president said that, in the long term, global peace can only be achieved by “eliminating the conditions that feed radicalism and ideologies of murder,” and ending tyranny through “the force of human freedom.”

“The United States has no right, no desire, and no intention to impose our form of government on anyone else. That is one of the main differences between us and our enemies,” Bush said.

“Our aim is to build and preserve a community of free and independent nations, with governments that answer to their citizens, and reflect their own cultures,” he said.

The United States will promote peace and stability in the Middle East by working with its friends in the region “to fight the common threat of terror, while we encourage a higher standard of freedom,” he said.

President Bush also said the goal of having two democratic states, Israel and Palestine, coexisting peacefully, “is within reach” and that the United States “will help them achieve that goal.”

He said he will ask Congress for \$350 million to support Palestinian political, economic, and security reforms.

The president also pledged to build international coalitions to “defeat the dangers of our time” during his second term in office. He called upon Syria to end its support for terrorism and to allow greater freedom and described Iran as “the world’s primary state sponsor of terror.”

He said the United States was working with its European allies to end Iran’s pursuit of nuclear weapons and support for terror, but told the Iranian people, “As you stand for your own liberty, America stands with you.”

The first half of the president’s speech largely concerned domestic U.S. issues, particularly the Social Security

pension plan, which he said “is headed toward bankruptcy” by the year 2042 and would need higher taxes, massive government borrowing or benefit cuts in order to survive.

Bush called on members of Congress to “join together” to permanently strengthen and save the pension program by candidly reviewing the options. “I will work with members of Congress to find the most effective combination of reforms,” he said.

With the goal of “greater security in retirement,” Bush called for the establishment of voluntary personal retirement accounts, which would allow individuals to invest a portion of their social security contributions to allow their money to grow “at a greater rate than anything the current system can deliver.”

The president also called for immigration reform which would permit temporary guest workers to “fill jobs Americans will not take,” and would allow U.S. authorities to better track who is entering and leaving the United States.

FEDERAL SPENDING CUTS SEEN AS 2005 U.S. PRIORITY

Experts differ on economic benefits of deficit reduction

(This article is the first in a two-part series on the U.S. budget.)

Washington -- When President Bush presents his fiscal year 2006 budget request February 7, economists and policy-makers worldwide will be watching to see how serious the U.S. federal government is about cutting its budget deficit, which amounted to \$412 billion in 2004.

For the past decade, the United States has been the engine of world growth, and at least some economists and international leaders fear that continued budget deficits could begin to dampen U.S. economic momentum. Other economists say that such fears are not supported by evidence and that they believe fast U.S. growth will ultimately shrink the deficit.

What is clear is that a growing number of members of Congress and White House advisers see fiscal year 2006 as critical for holding the reins on spending. In January, White House Chief of Staff Andrew Card told business leaders that the Bush administration would exercise "very strong discipline" in its budget proposals for the year that begins October 1.

During the 2004 campaign, Bush vowed to halve the deficit by 2009.

According to the Congressional Budget Office (CBO), a nonpartisan research body of the U.S. Congress, the deficit is projected to decrease by \$44 billion in 2005 from the actual \$412 billion the year before. Aggregate deficits over the next 10 years will total some \$855 billion. The administration has explained that spending necessitated by the war on terrorism and military operations in Afghanistan and Iraq, as well as revenue losses from stock market declines, are to blame for the fiscal gaps.

Viewed relative to the size of the U.S. economy, however, the administration points out that budget deficits are not near record levels. Currently projected at 4.5 percent of gross domestic product (GDP) for 2004, the deficits were this large or larger in six of the past 25 years, including a peak of 6.0 percent in 1983. The administration's Office of Management and Budget (OMB) projects the deficit will drop below 2 percent of GDP by fiscal year 2007. This is one reason some economists argue that the deficit problem is overblown.

The administration's numbers do not include the costs of new legislative actions on taxes and reform of the Social Security public pension program that Bush promises to seek. In addition, some private economists argue that not being sufficiently aggressive on deficit reduction can be risky.

Much of the U.S. debt in the form of U.S. government securities is held by non-U.S. entities, such as the central banks in Japan and China. As long as there are buyers for these securities, the debt is manageable. However, Federal Reserve officials, including its chairman Alan Greenspan, have cautioned that international investors may eventually reduce their dollar-denominated assets or seek higher dollar returns, a development that could weaken the value of the U.S. dollar in international markets, push U.S. interest rates up, and eventually dampen U.S. growth. According to an international survey of 65 countries published January 24 by Central Banking Publications, a banking research group, central banks

have begun to shift reserves away from the U.S. dollar toward the euro.

John Makin, director of fiscal policy studies at the American Enterprise Institute, an independent, nonprofit "think tank," rejects such arguments, noting that long-term interest rates have been falling. "The demand for U.S. debt instruments will continue to rise worldwide," Makin said. "Investors in emerging markets -- especially China, where wealth is rising rapidly -- are hungry for attractive ways to store wealth and are largely deprived of such outlets by controls on capital outflows."

Gregory Mankiw, chairman of the president's Council of Economic Advisers, has said he agrees with those who argue that deficits have an adverse impact on economic growth. Other things being equal, he said, deficits "tend to put upward pressure on interest rates, which in turn puts downward pressure on investment spending." That is one of the reasons reducing the fiscal gap is a priority for the administration, he said.

In the 2006 budget proposal Bush is expected to ask Congress for a virtual freeze on discretionary spending other than for national defense and homeland security as part of his plan to reduce the federal government's budget deficit, according to White House officials. The other part of the plan comprises policies to stimulate economic expansion, they said.

Discretionary spending includes money for government agencies and programs for which funding levels are determined and controlled by Congress in annual appropriations bills. Such spending constitutes about one third of all federal expenditures.

LIFTING ARMS EMBARGO AGAINST CHINA WOULD SEND "WRONG SIGNAL"

Secretary Rice, Spokesman Boucher remarks on EU arms embargo against China

By Tim Receveur
Washington File Staff Writer

Washington -- A European Union (EU) decision to lift its arms embargo against China would "send the wrong signal about human rights," U.S. Secretary of State Condoleezza Rice said February 1 during an interview with Reuters and Agence France-Presse.

Both the United States and the European Union imposed an arms embargo in response to the Chinese government's brutal repression of protestors calling for democratic and political reform in June 1989. However, the EU is considering lifting the embargo and instead applying a code of conduct on arms deals with China.

"I have to say that in a circumstance in which the embargo was levied -- because of human rights concerns out of Tiananmen [the 1989 repression incident] -- one has to be very careful not to send the wrong signal about human rights," Rice said. "And of course, we do have concerns about the strategic military considerations of doing so."

Rice said she was not resigned to the embargo being lifted, saying the United States has had a "good dialogue" with Europe over the issue.

"I think at this point we need to continue to discuss it and work it out," she said, adding that she has "found the Europeans open to our concerns and willing to try to understand them, and so we'll see how we can address it."

Asked about potential retaliation from Congress should the EU act, Rice replied, "I don't want to speculate on what might happen if the arms embargo is lifted."

The interview came in advance of Rice's first trip as secretary of state. Her itinerary includes the United Kingdom, Germany, Poland, Turkey, Israel, the West Bank, Italy, France, Belgium and Luxembourg.

Last week, State Department spokesman Richard Boucher said that lifting the embargo on China "is not the right policy decision, not the right time, given China's human rights record, and sends the wrong signal. We don't think

an expansion of arms sales to China is appropriate at this time."

In terms of China's human rights situation, Boucher said, "we have not seen any change; in fact, we've seen some negative developments that lead us to think it's not the right time to withdraw the embargo."

Boucher said Washington was also concerned about "particular types of weapons systems that might be sold that could alter or change the military situation in the region, particularly vis-à-vis Taiwan."

Congress has already flagged this issue, and a recent House version of the National Defense Authorization Act (NDAA) contained provisions that would preclude the Department of Defense from procuring defense articles or services from any "foreign person" who transfers defense items to China.

On February 2, the House of Representatives by a vote of 411-3 passed a nonbinding resolution urging the EU to maintain its arms embargo on China and to close gaps in the current embargo, "in the national export control systems of EU member states, and in the EU's Code of Conduct on Arms Exports in order to prevent any future sale of arms or related technology to China."

The United States continues its arms embargo on China.

For details on the U.S. Position on the EU Arms Embargo Against China:

<http://usinfo.state.gov/eur/Archive/2004/Nov/17-557065.html>

CONGRESSIONAL REPORT, FEBRUARY 2: WEAPONS REDUCTION PROGRAM

Nunn-Lugar program deactivated 312 Russian nuclear warheads in 2004

The Nunn-Lugar program, designed to destroy weapons from the former Soviet Union, deactivated 312 Russian nuclear warheads in 2004, bringing the total number of weapons destroyed since the program began to 6,564, according to a report from the U.S. Defense Threat Reduction Agency.

Senate Foreign Affairs Committee Chairman Richard E. Lugar said in a prepared statement January 27 that in addition to the 312 warheads removed from Russian missile systems, the program last year also destroyed:

- 41 SS-18 Satan missiles, each capable of delivering 10 warheads;
- 22 missile silos housing SS-18 missiles;
- 18 Backfire bombers in Ukraine, each capable of carrying three nuclear air-launched cruise missiles;
- 93 long-range, nuclear-capable, air-launched cruise missiles that were carried by Bear and Blackjack bombers;
- 81 submarine-launched, nuclear-capable ballistic missiles in Russia that were carried aboard Typhoon, Delta III, and Delta IV submarines; and
- Nine mobile intercontinental ballistic missile launchers.

The Nunn-Lugar program, created by Congress in 1991, is formally known as the Cooperative Threat Reduction (CTR) Program and provides assistance for dismantling or safely storing the nuclear, biological and chemical weapons of the former Soviet arsenal. Designed to limit the threat of itinerant weaponry, Nunn-Lugar established a fund to pay for the identification, destruction and disposal of nuclear and chemical weapons. The initiative also welcomes former Soviet scientists to work in research initiatives not related to weapons, Lugar said.

The International Science and Technology Centers, of which the United States is the leading sponsor, have engaged 58,000 former weapons scientists in peaceful work, Lugar said. The International Proliferation

Prevention Program has funded 750 projects involving 14,000 former weapons specialists and created some 580 new, peaceful, high-technology jobs, he said.

“Ukraine, Belarus, and Kazakhstan are nuclear weapons-free as a result of cooperative efforts under the Nunn-Lugar program,” Lugar said.

NO EVIDENCE OF HARM IN DUMPING CASE ON JAPAN IMPORTS, U.S. SAYS

Trade panel’s final determination affects imports of engines

Washington -- The U.S. International Trade Commission (USITC) has rejected imposition of anti-dumping duties on outboard engines from Japan, finding no evidence that the imports hurt or threatened domestic producers of similar products.

In a 4-2 vote, the six commissioners made a final negative determination in the case in which the Commerce Department had ruled that those imports were dumped on the U.S. market. Had the USITC made an affirmative determination, it would have asked the department to impose anti-dumping duties equal to the dumping margin on the subject imports.

Imposition of anti-dumping duties requires final affirmative determinations both from the Commerce Department that dumping occurred and from the USITC that the imports injured or threatened U.S. industry.

In 2003, outboard engine imports from Japan amounted to \$673.5 million, a 15 percent increase over 2002.

Dumping is the import of goods at a price below the home-market or a third-country price or below the cost of production. A dumping margin represents by how much the fair-value price exceeds the dumped price.